

From Compliance to Excellence – A More in Depth Look at Board Evaluations

NACD New England

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Shareholders Expect More



Director Elections

- Proxy Access
- Elimination of Broker Discretionary Voting
- Director Credentials
- Shareholder Proposals, Director Nomination Procedures

Executive Compensation

- Say on Pay

Board Structure

- Independent Chairman
- Risk Committee

New Catch Words



Fraud



Risk

Independence



Industry Experience

**Business
Judgment**



**Communications
with Shareholders**

Director Evaluation Criteria Evolve



- **Skill Matrix**
- **Risk Assessment Ability**
- **Shareholder – Board Relationship**

Case: ArQule Inc. Board Evaluation



- **Strategic alignment is the key focus**

- Director Selection

- Skills-needed matrix changes over time in biotech

- Target selection → drug discovery → clinical trials → partnership → commercialization

- Evaluate skills needed annually to fit strategy and mitigate risk

- Create specific profile of any needed additions to the Board & Committees

- Board-led process (not management)

- Chairman is a non-executive position

- Director Turnover

- Typically due to time constraints or proprietary conflict-of-interest

- Generally Director-initiated, although may be prompted by heart-to-heart conversation with the Board Chairman

Case: ArQule Inc. Board Evaluation



- **Strategic alignment is the key focus**
 - Board annual self-evaluation
 - Select externally-validated model of what makes an effective board (e.g. in '09 used McKinsey's "Board Strategy & Effectiveness" study)
 - Assigned board members responsibilities to research, present, & lead discussion of one section of evaluation (e.g., comprehensive approach, talent management, relentlessly monitor performance)
 - Discussed as a group
 - Concluded "Are there additional skills we need at the board level?"
 - Other feedback
 - Each Committee conducts annual self-evaluation
 - Brief evaluation of each Board meeting in Executive Session
 - Chairman and CEO discuss Board function 2-3 times/year (also collects management's feedback)
 - Chairman or Board members may talk with the CEO if meeting doesn't meet expectations in either direction
 - No systematic/formal individual Board member evaluation

Nominating & Gov Committee



- **Shareholder communications example**
- **Point Blank Solutions (PBSO) strategic plan as disclosed in the proxy**
- **“...established a vision for Point Blank Solutions to be the global leader in safety apparel and protective solutions...based on the following five strategic pillars:”**
 - Capture new military programs and increase civil market share
 - Expand internationally
 - Improve the company’s cost position
 - Pursue strategic ventures to expand and diversify
 - Build confidence in leadership & demonstrate financial responsibility

Source: Point Blank Solutions, Inc. 2008 Proxy

Shareholder Communication



- **PBSO skill sets identified & disclosed in proxy:**
 - Financial expert
 - Government procurement experience
 - Turnaround expert
 - Industry expertise and experience
 - International experience
 - Leadership skills
 - Corporate nominating and governance expert
 - Manufacturing expertise
 - Public relations and marketing experience

Source: Point Blank Solutions, Inc. 2008 Proxy

Shareholder Communication



- **Director background information disclosed in proxy**
 - DB – marketing experience & history as a senior executive
 - Gen MB (ret.) – globe-spanning career with US Marine Corps
 - Gen LE (ret.) - a globe-spanning career with US Army
 - JH – audit committee financial expert
 - MH – provides ties to law enforcement community
 - Sen. WC - career as a legislative leader
 - SH – experience in turning around troubled companies & corporate nominating and governance
- **“... the composition of the Board reflects the strategic imperative that ... expertise in all crucial aspects of corporate management be represented, along with legislative experience and robust connections.”**

Source: Point Blank Solutions, Inc. 2008 Proxy